



HYDROPOTHECARY®

HEXO

MANAGEMENT DISCUSSION AND ANALYSIS

For the three- and nine-month periods ended April 30, 2018



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Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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This management discussion and analysis (“MD&A”) of the financial condition and results of operations of The HydroPothecary Corporation and our wholly-owned subsidiaries (collectively, “we” or “us” or “our” or “Company” or “HydroPothecary”), is for the three and nine months ended April 30, 2018, the third quarter of our 2018 fiscal year (“Fiscal 2018”). It is supplemental to, and should be read in conjunction with, our unaudited condensed interim consolidated financial statements and the accompanying notes for the three and nine months ended April 30, 2018, as well as the audited financial statements and MD&A for the fiscal year ended July 31, 2017. Our financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). All amounts presented herein are stated in Canadian dollars, unless otherwise indicated.

This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 “Continuous Disclosure Obligations” of the Canadian Securities Administrators. Additional information regarding the Company is available on our websites at www.thehydroPothecary.com or THCX.com or through the SEDAR website at www.sedar.com.

Certain information in this MD&A contains or incorporates comments that constitute forward-looking information within the meaning of applicable securities legislation. Forward-looking information, in general, can be identified by the use of forward-looking terminology such as “may”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “should”, “plans”, “continue” or “objective”, or similar expressions suggesting future outcomes or events. They include, but are not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and our objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to our plans and objectives, or estimates or predictions of actions of customers, suppliers, competitors or regulatory authorities; and, statements regarding our future economic performance. These statements are not historical facts but instead represent management beliefs regarding future events, many of which, by their nature are inherently uncertain and beyond management control. We have based these forward-looking statements on our current expectations about future events. Although the forward-looking statements contained in this MD&A are based on what we believe are reasonable assumptions, these assumptions are subject to a number of risks beyond our control and there can be no assurance that actual results will be consistent with these forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to: financial risks; industry competition; general economic conditions and global events; product development, facility and technological risks; changes to government laws, regulations or policy, including tax; agricultural risks; supply risks; product risks; dependence on senior management; sufficiency of insurance; and, other risks and factors described from time to time in the documents filed by us with securities regulators. For more information on the risk factors that could cause our actual results to differ from current expectations, see “Risk Factors”. All forward-looking information is provided as of the date of this MD&A. We do not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required by law.

This MD&A is dated June 27, 2018.

NON-IFRS MEASURES

We have included certain non-IFRS performance measures in this MD&A, including Weighted average cash cost of dried inventory sold per gram and adjusted gross margin, as defined in this section. We employ these measures internally to measure our operating and financial performance and to assist in business decision making.

We believe that these non-IFRS financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate our operating results, underlying performance and future prospects in a manner similar to management.

As there are no standardized methods of calculating these non-IFRS measures, our methods may differ from those used by others, and accordingly, these measures may not be directly comparable to similarly titled measures used by others. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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Weighted average cash cost of dried inventory sold per gram

Weighted average cash cost of dried inventory sold per gram includes direct costs associated with the growing, harvesting and processing of inventory sold such as labour, utilities, fertilizer costs, biological control costs, general supplies and materials, curing, milling, quality assurance and testing, of inventory sold in the period.

We believe this measure provides useful information as it measures production efficiency and may be a benchmark against our competitors.

Adjusted Gross Margin

We use Adjusted Gross Margin to provide a better representation of performance in the period by excluding non-cash fair value measurements as required by IFRS. We believe this measure provides useful information as it represents the gross margin for management purposes based on cost to produce, package and ship inventory sold, exclusive of any fair value measurements as required by IFRS. The metric is calculated by removing all amounts related to biological asset fair value accounting under IFRS, including gains on transformation of biological assets and the cost of finished harvest inventory sold, which represents the fair value measured portion of inventory cost (“fair value cost adjustment”) recognized as cost of goods sold.

We believe this measure provides useful information as it measures production efficiency and may be a benchmark against our competitors.

Company Overview

Our company was founded in 2013 for the purpose of producing cannabis under Health Canada’s *Marihuana for Medical Purposes Regulations* (“MMPR”). We became the 17th licensed producer in Canada in March 2014 and made our first sale of medical cannabis in May 2015.

The MMPR was replaced by the *Access to Cannabis for Medical Purposes Regulations* (“ACMPR”) in August 2016. Under our current ACMPR license, we are authorized to produce and sell cannabis to medical patients in dried and oil form. Our license has a term ending on October 15, 2019 and we are not currently aware of any circumstances that would impede renewal.

We cultivate, process and package medical cannabis at our facilities in Gatineau, Québec. Our corporate offices, R&D and product development are located on the same 143-acre site. We were the first licensed producer in Québec and are the only publicly traded cannabis company headquartered in Québec.

To date, we have sold over one million grams of medical cannabis to thousands of patients across Canada who count on us for safe, high quality products. We have acquired valuable experience and knowledge by serving these patients, while developing an extensive product line and establishing a distinct brand that positions us favourably for the opening of the adult recreational market.

Investors have responded positively to both our strategy and execution, as evidenced by the \$313.0 million we have raised in public markets since July 2017, making us one of the best-capitalized companies in the industry.

As at April 30, 2018, we employ approximately 137 people. Which included 23 people in cultivation and harvesting; 38 in operations, manufacturing and processing; 40 in sales and marketing; 6 in quality assurance and research and development, and 30 in corporate services and executive.

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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We do not, and do not intend to, carry on business, directly or indirectly, in any business that derives revenue, directly or indirectly, from the sale of cannabis or cannabis products in the United States or in any other jurisdiction where the sale of cannabis is unlawful under applicable laws.

For additional information about our corporate structure, please refer to our Annual Information Form for the fiscal year ended July 31, 2017, which is available under our profile on SEDAR at www.sedar.com.

Canadian cannabis market

According to Statistics Canada, nearly five million Canadians purchased \$5.7 billion worth of cannabis in 2017, mostly from illegal sources. The federal agency estimates that the average price per gram was \$7.50. Various market studies have estimated the size of the Canadian cannabis market at over \$10 billion per year.

Legislation to legalize adult recreational use – Bill C-45, *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts* – received Royal Assent on June 21, 2018, making Canada the second nation to legalize recreational cannabis. The official date of legalization is October 17, 2018. Only licensed producers will be authorized to sell cannabis into the adult recreational market. As at April 30, 2018, there were approximately 104 licensed producers under the ACMPR.

Regulation of the sale of adult recreational cannabis in retail and online environments is the responsibility of the provinces and territories. Most jurisdictions will require licensed producers to sell all cannabis products to provincial and territorial control boards, which will sell to consumers online and through their own outlets or licensed private outlets.

In Québec, which has a population of 8.4 million or approximately 23% of the Canadian population, the Société québécoise du cannabis (“SQDC”) will operate the distribution and sale of adult recreational cannabis in the province. The SQDC has indicated that, upon the anticipated legalization of adult recreational use, it intends to begin with 20 retail locations across Québec in which it will sell cannabis onsite and that it expects to increase this number to 100 locations within the first two years of legalization. It will also sell cannabis online.

As at June 22, 2018, there are seven other licensed producers of cannabis in Québec in addition to Hydrothecary: Agri-Médic ASP Inc; Agro-Biotech Inc; Aurora Cannabis Enterprises Inc.; IsoCanMed Inc., Vert Cannabis Inc, Medican Organic Inc. and Les Serres Vert Cannabis Inc.

Of the eight licensed producers, Hydrothecary is the only one currently authorized to sell cannabis. The other licensed producers possess a license to cultivate but are not yet licensed to sell cannabis from their facilities.

In Ontario, which has a population of 14.3 million or approximately 39% of the Canadian population, the government has announced that it will sell recreational cannabis through stores and online through the Ontario Cannabis Stores (“OCS”). The OCS is proposing an open tendering process, whereby licensed producers of cannabis can submit bids in response to requests from the OCS. The OCS will offer consumers a variety of cannabis products from 40 initial retail locations, growing to 150 locations by 2020 across 29 communities. Products will include dried cannabis, oil and capsule products, pre-rolled, and clones and seeds.

As at the date of this MD&A, the cannabis control authorities of four provinces – New Brunswick, Newfoundland & Labrador, Prince Edward Island, and Québec – have announced cannabis supply agreements leading up to the anticipated legalization of adult recreational use.



Corporate strategy

Since inception, we have been laying the foundation for becoming a leader in the Canadian cannabis market, serving both medical patients and, post-legalization, adult recreational users. We believe that success in Canada can then be leveraged into global cannabis markets.

Given the different regulations governing the sale of recreational use cannabis across Canada, the number of large-scale licensed producers, and the limited cultivation capacity at the present time, among other factors, we believe the initial years post-legalization will be the most critical in determining the future shape of the cannabis industry in Canada and we believe obtaining provincial distribution will be critical to securing a market leader position.

For this and other reasons, we have deliberately set out to build a commanding position in one jurisdiction – Québec – immediately post-legalization, while making strategic inroads in selected other markets across the country. By quickly proving our business model and operational excellence in Québec, we expect to establish HydroPothecary as a desirable business partner for cannabis control authorities across Canada and globally.

Our strategy is built on three pillars – scale, distribution and brand. As we approach the opening of the adult recreational market, we are focused on the execution of three strategic priorities:

1. *Scale:* Increasing production capacity rapidly to meet Year 1 (beginning approximately September 2018) and Year 2 (beginning approximately September 2019) demand in the adult recreational market in Québec, while achieving low-cost producer status;
2. *Distribution:* Establishing large-scale product distribution in Québec and strategic penetration in selected other Canadian markets as well as internationally;
3. *Brand:* Gaining strong consumer awareness of our brand by offering the best customer experiences through the broadest range of products and delivery methods.

In everything we do – cultivation, production, product development, distribution – we will exercise rigor in order to offer medical cannabis patients and adult recreational users uncompromising quality and safety, while earning and maintaining the trust of all of our stakeholders. This commitment is supported by our compliance with Health Canada’s stringent quality control requirements, our pharmaceutical grade production system, full seed-to-sale traceability, third-party independent testing, and a system of posting our product testing results online.

Scale

We have been cultivating cannabis for four years and we believe we now have the right systems in place under the ACMPR regulatory regime to grow and produce high-quality cannabis with consistent yields.

We chose to locate in Gatineau because we believe Québec offers the ideal conditions for cannabis production. The key is an abundant supply of renewable electricity at competitive rates, combined with abundant water resources and the availability of skilled people.

Our location also positions us in close proximity to two of Canada’s largest urban areas (Greater Montreal and the National Capital Region) and on the border of our country’s two largest consumer markets – Québec and Ontario.

Our current licensed facilities total approximately 50,000 sq. ft. They include our original 7,000 sq. ft. greenhouse, a 35,000 sq. ft. greenhouse completed in 2017, a warehouse, two stand-alone laboratories, and two modular buildings for final packaging and customer service, all located on our 143-acre land parcel. The annual production capacity of these facilities is estimated at approximately 3,600 kg of dried cannabis.

We broke ground on a 250,000 sq. ft. state-of-the-art 10 zone glass peaked-roof greenhouse in October 2017, and as of the date of this MD&A the first four zones have been licensed by Health Canada and plants have been transferred

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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in. The remaining zones are expected to be licensed in the near-term. This expansion will increase our annual production capacity to approximately 25,000 kg of dried cannabis.

In December 2017, we acquired an adjacent 78-acre land parcel upon which we are planning to build a 1 million sq. ft. greenhouse. This second expansion, currently underway, is expected to be completed in December 2018, at which time our total annual production capacity will be approximately 108,000 kg of dried cannabis per year.

As at April 30, 2018, our weighted average cash cost of dried inventory sold per gram was \$0.88. While there are currently no standardized measures for cash cost of inventory per gram in the Canadian medical cannabis industry, we believe we are one of the lowest cost producers, as measured by weighted average cash cost of dried inventory sold per gram. Our costs have decreased steadily as a result of improvements in cultivation processes and economies of scale from the full utilization of the new 35,000 sq. ft. greenhouse. We also benefit from competitive electricity rates, particularly in comparison to Ontario-based producers, and significantly lower construction-related capital costs in comparison to indoor facilities.

Distribution

As the only publicly traded licensed producer headquartered in Québec, our objective is to build a long-term supply relationship with the provincial authority responsible for cannabis distribution and sales.

On April 11, 2018, we announced the finalization of the commercial agreement with SQDC to be the preferred supplier for cannabis products for the Quebec market for the first five years post legalization. We will supply the SQDC with 20,000 kg of products in the first year and expect to supply 35,000 kg and 45,000 kg in years two and three respectively. Thereafter, based on an expected market growth rate of 10% we intend to supply 49,500 kg and 54,450 kg in years four and five respectively. The Company estimates the total volume to be supplied over the five-year term of the agreement to be in excess of 200,000 kg which is the largest forward supply contract ever awarded in the history of the emerging cannabis industry. Based on the current agreements signed between the SQDC and five other licensed producers, we obtained the highest Year 1 volume, representing approximately 34% market share within the province of Quebec, and we are aiming to remain the largest supplier in subsequent years.

Our top priority in Year 1 of the adult recreational market is to serve the Québec market and to make a strategic entry into other Canadian markets such as Ontario to position for full-scale supply to that market when production comes on line. As we execute on our relationship with SQDC and enter Ontario, we will also engage with authorities responsible for cannabis distribution and retail in Alberta and British Columbia to open additional markets for our brand. Until our capacity expansions are operational, our objective is to use our award-winning, innovative products to position our brand at retail and in online stores in markets outside Québec on a limited basis.

In terms of processing and distribution capacity, we are significantly increasing our capabilities. Our current expansion project features a state-of-the-art processing, packaging and distribution centre.

Brand

We have built a robust innovation and product development team responsible for developing products that offer consumers a full range of experiences and price points, including a variety of ways to consume cannabis products. This team works hand-in-hand with our marketing team in leveraging these products to build brand awareness in a highly-regulated environment.

We currently offer patients a choice of nearly two dozen medical cannabis products under four product lines: *Time of Day*, premium dried cannabis; *H2*, mid-market dried cannabis; *Decarb*, activated fine-milled cannabis powder; and *Elixir*, a peppermint-based cannabis oil sublingual mist. Our dried cannabis products are currently priced between \$3.00 and \$15.00 per gram. THC and CBD sublingual mist are sold for \$69.00 and \$89.00 per 15 ml bottle. Certain of our products have received kosher certification.

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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Decarb and Elixir, have both won excellence awards. Decarb, a cannabis powder, is an alternative to smoking, vaping and oils. Decarb uses a proprietary drying method and exacting scientific standards to decarboxylate (decarb) the cannabis, which activates the cannabinoids (THC and CBD), so that they can be consumed orally.

Elixir is the first sub-lingual cannabis spray authorized under the ACMPR. Packaged in a child-resistant spray bottle, Elixir is a smoke-free, ready to use, high THC product. We have since extended this product line with the launch of Elixir CBD. We are the first to market with THC and CBD cannabis oil spray products.

Decarb was voted “Top New Product” at the Canadian Cannabis Awards and Elixir received the third-place award in this category and the second-place award in the “Top High THC Oil”. We also received the top honour in the packaging category.

On May 24, 2018 we announced the launch of HEXO our new brand for the adult-use recreational market. Through HEXO we will enter the recreational market and deliver the same level of high quality and innovative products as we have done through the Hydrothecary. The goal of HEXO is to continue to be a premium brand and industry leader as we continue to grow and reach into the national and global markets. We have aligned the new recreational branding within the proposed standards as set by Bill C-45, *An Act respecting cannabis and to amend the Controlled Drugs and Substances Act, the Criminal Code and other Acts*, as such we expect very limited branding, packaging and labelling issues once the recreational market is opened. Going forward the Hydrothecary brand will continue to serve the medical cannabis market with the same quality and standards patients have come to expect.

Shareholder value creation

Our strategic priorities reflect our view that long-term shareholder value in our industry will be created by companies that achieve large-scale distribution and high brand awareness. We aim to be the best partner for provincial cannabis distribution and retail authorities, while being recognized for delivering the best user experiences across the full spectrum of products, price points and delivery methods.

This view is reflected in our distribution strategy and our focus on research, innovation and product development. We are actively exploring ways to increase our expertise related to cannabis applications and forms of delivery, and to expand our product range and brand portfolio. These include potential partnerships, joint ventures and strategic acquisitions of intellectual property and related transactions.

Beyond the funds required for our currently planned investments in cultivation capacity, we expect to allocate the majority of our capital to distribution, downstream activities, intellectual property and branding, while remaining alert for opportunistic transactions that create shareholder value. This approach will directly support us on our journey to becoming a leader in the Canadian cannabis market both as a distributor and product innovator.

Corporate Highlights

SQDC Supply Agreement

On April 11, 2018 we announced the finalization of the commercial supplier agreement with the SQDC, for the supply of cannabis for the Quebec market. We will supply 20,000 kg of cannabis products in the first year of adult-use recreational cannabis and expect to supply a total in excess of 200,000 kg over the five year term. The agreement covers the full range of our products and brands, from H2 and Time of Day (flower) to Elixir (sub-lingual oil spray)

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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to Decarb (powder). With this agreement in place we become the second largest commercial supplier to provincial and territorial governments in the first year of marijuana legalization, and only 5,000 kg behind Canada's largest supplier.

Hexo Brand

On May 24, 2018 we announced the launch of our new sister brand for the recreational adult-use cannabis market. HEXO will bring the same award-winning product innovation and high-quality cannabis that the Hydrothecary brand has become known for. The Hydrothecary brand will continue to deliver premium cannabis to the medical market going forward.

Graduation to the Toronto Stock Exchange

On June 22, 2018 we announced the final approval from the Toronto Stock Exchange (TSX) to graduate from the TSX Venture Exchange (TSXV) and list our common shares and common share warrants on the TSX. Upon the final approval the common shares have been voluntarily delisted from the TSXV and relisted on the TSX. The common shares and common share warrants will trade under the symbols "HEXO" and "HEXO.WT" respectively. Graduating to the TSX presents the opportunity for increased access to capital, greater market visibility, enhanced reputation in meeting the required standards of a senior exchange and increased liquidity on world markets.

Corporate Name Change

On June 22, 2018, we announced our intention to change the corporation name from The Hydrothecary Corporation to HEXO Corporation, pending shareholder approval.

Executive Appointments

During the quarter we bolstered our executive team with the addition of four experienced professionals to our executive team.

Roch Vaillancourt, General Counsel – Roch brings almost 25 years of business and legal experience to his role as General Counsel and Corporate Secretary. Roch has been involved in several successful business ventures, both as an executive and legal advisor which earned him inclusion as one of Canada's top 100 General Counsels (Legal 500 GC Powerlist -2016). As General Counsel, Roch plays an integral role in crafting all aspects of the company's business and legal strategy, including contract negotiations, ensuring regulatory compliance, managing legal and regulatory issues, and supporting management and the Board of Directors in all legal issues.

Sonia Isabel, Vice-President of Sales – Sonia brings more than 20 years of sales and marketing experience managing large teams to success. Her experience includes more than a decade in senior roles with the Société des alcools du Québec (SAQ), including Director of Business Relations, Director of Sales Administration, and Director of Operational Planning. Sonia leads our sales development and customer acquisition and retention strategies, focusing on Quebec and other markets across Canada and abroad.

Jocelyn Racine Vice-President of Finance – Jocelyn is a Chartered Professional Accountant and brings three decades of financial management in the construction and telecommunications industry to the role. Jocelyn is responsible for financial reporting, internal control, risk management, and day-to-day treasury and financial operations. He also provides executive management with financial insight to support decision-making and contribute to the company's success.

Arno Groll, Vice-President of Operations – Arno was recently promoted to VP of Operations from his previously held Director of Operations position at Hydrothecary. His engineering background along with management and organizational expertise has helped him to succeed in overseeing our day-to-day operations in support of our growth. This includes oversight of and responsibility for operations, supply chain, and our expansion projects.

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



HYDROPOTHECARY®

Segra Agreement

On March 16, 2018 we announced an agreement with Segra International Corp. (“Segra”) to incorporate plant tissue culture propagation into the cannabis plant production process. Segra’s expertise and unique tissue culture technique will allow us to increase our yield of healthy, top-quality plants to serve the growing medical and recreational cannabis markets.

Shopify Agreement

On March 20, 2018, we announced an agreement with Shopify, one of the world’s most respected online commerce companies, to build our ecommerce platform for cannabis products. The bilingual website will improve the shopping experience for medical cannabis patients by streamlining the medical registration and ordering process, and provide information for discerning recreational consumers. It will also support engagement with provincial and territorial cannabis retailers, while giving us the flexibility to adapt to regulatory challenges and market variations from province to province. This platform is an important component of our Canadian distribution strategy.

Operational and Financial Highlights

Key Performance Indicators

	Q3'18	Q2'18	Q1'18	Q3'17
Revenue	\$1,240	\$1,182	\$1,102	\$1,182
Grams and gram equivalents sold	134,253	131,501	120,844	137,123
Revenue/gram equivalent	\$9.24	\$8.99	\$9.12	\$8.62
Weighted average cash cost of dried inventory sold per gram	\$0.88	\$0.97	\$1.07	\$2.06

- Revenue per gram increased to \$9.24 per gram equivalent from \$8.99 in the prior quarter, and \$8.62 in the third quarter of fiscal 2017.
- Revenue increased 5% to \$1,240 compared to \$1,182 in the third quarter of Fiscal 2017. Higher revenue was driven mainly by increased oil sales volume (which command a higher revenue per gram equivalent than dried products) offset partially by lower dried product sales volume. Compared to the prior quarter, the sequential revenue increase was 5%.
- Sales volume decreased 2% to 134,253 gram equivalents, compared to 137,123 in the same prior year period. The decrease is due to our new oil products, which have a higher revenue per gram equivalent and a strong market acceptance. On a sequential basis, sales volume increased 2% compared to the second quarter of Fiscal 2018.
- Weighted average cash cost of dried inventory sold per gram as at April 30, 2018 declined 9% to \$0.88, compared to \$0.97 in the prior quarter, reflecting higher production efficiencies and increased yields.
- We established relationships with 8 additional clinics during the quarter, further expanding and diversifying our patient base and market presence. We had relationships with 139 clinic locations at the end of the quarter.
- As a result of the growing scale of operations, our head count rose by 36% to 137 employees as at April 30, 2018 from 101 on January 31, 2018.

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



HYDROPOTHECARY®

Facility Expansion

- As of the date of this MD&A all greenhouse zones of the new 250,000 sq. ft, 10 zone, B6 facility have been substantially completed, with the first four zones licensed. The new facility increases the current production capacity to 25,000 kg per year. Along with the B9 expansion which is currently under construction, total expected production capacity will increase to 108,000 kg annually.
- Due to significant growth over the past fiscal year, in April, 2018 we secured additional office space in Gatineau, Quebec. The space will primarily house the executive team, as well as the finance and communications departments with the possibility of further expansion as the company and headcount continue to grow.

Product Line Expansion

- On February 1, 2018 we continued our commitment to innovation by launching Elixir CBD Peppermint, Canada's first CBD medical cannabis oil mist. With less than 4 mg/ml of THC and between 50 to 60 mg/ml of CBD, Elixir CBD Peppermint delivers the therapeutic benefits of CBD to patients while minimizing the psychoactive effects of THC.

Financial Position

- As at April 30, 2018, we held cash and short-term investments of \$248,950, and continued to hold no debt on our balance sheet.

Summary of Results

Summary of results for the three- and nine-month periods ended April 30, 2018 and April 30, 2017

Income Statement Snapshot	For the three months ended		For the nine months ended	
	30-Apr-18	30-Apr-17	30-Apr-18	30-Apr-17
Revenue	\$ 1,240	\$ 1,182	\$ 3,523	\$ 3,235
Adjusted Gross Margin	\$ 761	\$441	\$ 2,130	\$ 1,883
Gross margin	\$2,666	\$ 1,377	\$ 5,881	\$ 3,386
Operating expenses	\$ 5,319	\$ 2,385	\$ 13,654	\$ 5,585
Loss from operations	\$ (2,653)	\$ (1,008)	\$ (7,773)	\$ (2,199)
Net of other income/(expenses)	\$ 682	\$ (10,800)	\$ (5,069)	\$ (11,153)
Net income (loss)	\$ (1,971)	\$ (11,808)	\$ (12,841)	\$ (13,352)
Weighted average shares outstanding	179,889,233	67,563,381	115,516,079	52,723,599
Net income (loss) per share	\$(0.01)	\$ (0.17)	\$ (0.11)	\$ (0.25)

* As a result of a business combination completed on March 15, 2017, pre-consolidation THCX shares were exchanged at a rate of six to one. Shares after this date have been stated using post-consolidation figures. (See Note 4 to the condensed interim consolidated financial statements for the three and nine months ended April 30, 2018.)

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



HYDROPOTHECARY®

Revenue

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<i>30-Apr-18</i>	<i>30-Apr-17</i>	<i>30-Apr-18</i>	<i>30-Apr-17</i>
Revenue	\$ 1,240	\$ 1,182	\$ 3,523	\$ 3,235
Total gram equivalents sold	134,253	137,123	386,598	308,423

Revenue for the third quarter ended April 30, 2018 increased 5% to \$1,240 compared to \$1,182 in the same period in Fiscal 2017. Higher revenue was driven mainly by increased Elixir sales volume, offset partially by lower dried product sales volume as the Company continued to focus significantly on the upcoming adult-use market. Compared to the prior quarter, the sequential revenue increase was 5%, reflecting higher oils sales volume offset partially by lower dried product sales volume and slight decrease in the average dried product selling price.

Sales volume decreased 2% to 134,253 gram equivalents, compared to 137,123 in the same prior year period, as we saw a decrease in our dried cannabis sold, which was partially offset by an increase in our oil based products as the product mix purchased by customers shifted towards smoke free alternatives. Revenue per gram equivalent increased to \$9.24 as compared to \$8.62 in the same prior year period, mainly as a result of higher sales of our Elixir product line, which contributes \$11.29 per gram equivalent.

On a sequential basis, sales volume increased 2% compared to the second quarter of Fiscal 2018, essentially for the same reasons as noted above.

For the nine months ended April 30, 2018, revenue increased 9% to \$3,523 compared to \$3,235 in the same period in Fiscal 2017. Sales volume increased 25% to 386,598 gram equivalents, compared to 308,423 in the same prior year period.

Cost of Sales

Cost of goods sold includes the direct costs of materials and labour related to inventory sold, and includes harvesting, processing, packaging and shipping costs.

Fair value adjustment on sale of inventory includes the fair value of biological assets included in the value of inventory transferred to cost of sales.

Fair value of biological assets represents the increase or decrease in fair value of plants during the growing process less expected cost to complete and selling costs and includes certain management estimates.

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<i>30-Apr-18</i>	<i>30-Apr-17</i>	<i>30-Apr-18</i>	<i>30-Apr-17</i>
Cost of Sales	\$ 479	\$ 741	\$ 1,393	\$ 1,352
Fair value adjustment on sale of inventory	\$ 572	\$ 301	\$ 2,419	\$ 499
Fair value adjustment on biological assets	\$ (2,477)	\$ (1,237)	\$ (6,169)	\$ (2,001)
Total Fair value adjustment	\$ (1,905)	\$ (936)	\$ (3,750)	\$ (1,502)

Cost of sales for the quarter ended April 30, 2018 was \$479, compared to \$741 for the same quarter ended April 30, 2017. Included in the cost of sales for the quarter ended April 30, 2017 is the \$291 write down of inventories due to

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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the Company's voluntary recall in May 2017, which when excluded yields a cost of sales of \$450. The increase in cost of sales is the result of an increase in packaging and shipping costs, offset by a reduction in cash costs, which is the result of the current product mix sold in the period.

Fair value adjustment on the sale of inventory for the third quarter ended April 30, 2018 was \$572 compared to \$301 for the same quarter ended April 30, 2017. This is due to the increase in production scale.

Fair value adjustment on biological assets for the third quarter ended April 30, 2018 was (\$2,477) compared to (\$1,237) for the same quarter ended April 30, 2017. This is due to an increase in the number of plants as we ramp up production for the adult use recreational market.

Non – IFRS Measure

Weighted average cash cost of dried inventory sold per gram

Weighted average cash cost of dried inventory sold per gram includes direct costs associated with the growing, harvesting and processing of inventory sold such as labour, utilities, fertilizer costs, biological control costs, general supplies and materials, curing, milling, quality assurance and testing, of inventory sold in the period.

As there are no standardized methods of calculating this non-IFRS measure, our methods may differ from those used by others, and accordingly, the use of this measure may not be directly comparable to similarly titled measures used by others. Accordingly, these non-IFRS measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

Weighted average cash cost of dried inventory sold is calculated as follows:

	Q3'18	Q2'18	Q1'18	Q3'17
Cost of goods sold	\$479	\$ 451	\$ 463	\$ 741
<i>Less</i>				
Order fulfillment costs	\$(335)	\$ (286)	\$ (307)	\$ (167)
Cannabis oil conversion costs	\$(43)	\$ (41)	\$ (32)	-
Recall of inventory write down	-	-	-	\$ (291)
	\$101	\$ 124	\$ 124	\$ 283
Number of dried gram sold	114,968	127,769	115,768	137,123
Weighted average cash cost of dried inventory sold (g)	\$0.88	\$0.97	\$1.07	\$2.06

Weighted average cash cost of dried inventory sold per gram declined 57% year over year to \$0.88 for the third quarter ended April 30, 2018, compared to \$2.06 for the same prior year quarter. Cost per gram sold has been trending downward as a result of improvements in cultivation processes and economies of scale resulting from the full utilization of higher production capacity. We expect the scale up of growing and harvesting methodology to drive further improvements in production efficiencies.

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



HYDROPOTHECARY®

During the prior year quarter ended April 30, 2017, the Company recorded a write-down of inventories related to the Company's voluntary recall.

Operating Expenses

Operating Expenses	For the three months ended		For the nine months ended	
	30-Apr-18	30-Apr-17	30-Apr-18	30-Apr-17
General and administration	\$2,028	\$1,161	\$ 5,074	\$2,403
Marketing and promotion	\$2,102	\$873	\$ 4,528	\$2,324
Stock-based compensation	\$783	\$184	\$3,064	\$466
Amortization of property, plant and equipment	\$163	\$116	\$475	\$225
Amortization of intangible assets	\$243	\$51	\$513	\$167
Total	\$5,319	\$2,385	\$13,654	\$5,585

Operating expenses include marketing and promotion, general and administrative, research and development, stock-based compensation, and amortization expenses. Marketing and promotion expenses include customer acquisition costs, customer experience costs, salaries for marketing and promotion staff, general corporate communications expenses and research and development costs. General and administrative expenses include salaries for administrative staff and executive salaries as well as general corporate expenditures including legal, insurance and professional fees.

General and Administrative

General and administrative expenses increased to \$2,028 in the third quarter, compared to \$1,161 for the same period in Fiscal 2017. This increase reflects the growing scale of our operations, including an increase in general, finance and administrative staffing, consulting and professional fees, as well as increased compliance costs as a publicly listed company.

For the nine months ended April 30, 2018, general and administrative expenses increased to \$5,074 compared to \$2,403 for the same period in Fiscal 2017. The increase is consistent with the explanation as stated above.

Marketing and promotion

Marketing and promotion expenses increased to \$2,102 in the third quarter, compared to \$873 for the same period in Fiscal 2017. This primarily reflects additional marketing and promotional events undertaken in Q3. This is inclusive of higher staff and travel-related expenses, printing and promotional materials as well as advertisement costs. This is consistent with our focus to prepare for the legalization of the adult recreational market.

For the nine months ended April 30, 2018, marketing and promotion expenses increased to \$4,528, compared to \$2,324 for the same period in Fiscal 2017. The increase is consistent with the explanation as stated above.

Amortization of intangible assets

Amortization of intangible assets increased to \$243 in the third quarter, compared with \$51 for the same period in Fiscal 2017, and \$188 in the second quarter of Fiscal 2018. The increase is the result of a change in the expected useful life of certain software as we prepared for the implementation of a new ERP system in the fourth quarter of Fiscal 2018, which will replace certain software programs we currently use.



Loss from Operations

Loss from operations for the third quarter was \$2,653, compared to \$1,008 for the same period in Fiscal 2017. The increased loss from operations is due mainly to higher expenses in line with the expanding scale of operations as we prepare for the legalization of the adult recreational market.

For the nine months ended April 30, 2018, loss from operations was \$7,773, compared to \$2,199 in the same prior year period for the same reasons as the change for the three month period.

Other Income/Expenses

Other income/expense was \$682 and (\$5,069) for the three and nine months ended April 30, 2018 ((\$10,800) and (\$11,153) for the three and nine months ended April 30, 2017 respectively). Revaluation of financial instruments of (\$305) in the latest quarter reflects the revaluation of an embedded derivative related to \$3,275 of USD convertible debentures issued and converted in the prior year. Additionally, we incurred interest income for the three months ended April 30, 2018 and April 30, 2017 of \$849 and \$31, respectively. Interest expenses of \$Nil and \$79 were realized for the three months ended April 30, 2018 and April 30, 2017 respectively. This increase reflects the interest generated from the acquired short-term investments during the quarter ended April 30, 2018.

Outlook

We have achieved excellent revenue visibility as we approach the legalization of recreational cannabis, with the five year, estimated 200,000 kg supply commitment under our agreement with the SQDC and our medical cannabis sales. Predictable revenue streams from the recreational and medical markets, a debt-free balance sheet, two fully-funded expansion projects, and additional liquidity for corporate purposes, provide strong business certainty through Year 1 post-legalization and beyond. In our opinion achievement is the most important milestone to date in our company's history.

On April 11, 2018 we signed a commercial supplier agreement with the SQDC to supply cannabis to the Québec market. Based on the signed agreements between the SQDC and five other licenced producers, we obtained the highest Year 1 volume of 20,000 kg, representing a 34% market share. Based upon the estimates and established targets the total five-year agreement amounts to over 200,000 kg of cannabis to be supplied to the SQDC. This also places us as the second largest forward contract supplier in Canada and only 5,000 kg behind the top supplier. We are aiming to remain the largest supplier within Quebec in subsequent years as well as expand to other provincial and territorial supplier markets.

Our objective is to use our advantage as the only significant licensed producer in Québec to develop a close relationship with SQDC and establish HydroPothecary as the partner of choice in our home market. Our position is strengthened by our diversified and innovative product line, our ability to deliver Year 1 volume with the completion of our 250,000 sq. ft. greenhouse expansion, and our capacity to supply significantly higher volumes beyond Year 1, with the completion of our 1 million sq. ft. expansion at the end of 2018. With this second expansion, we will be well-positioned to supply more provincial markets across Canada.

While serving our medical cannabis patients, we are very focused on the execution of our strategic priorities for the adult recreational market, including the completion of our two large-scale greenhouse expansions. We are working to increase yield per square foot and decrease our production cost per gram in our existing facilities to remain a low-cost industry leader.



We are also continuing to invest in product innovation and development to offer consumers a variety of ways to experience cannabis at a broad range of price points, and to support the SQDC in achieving an efficient and successful roll-out of recreational cannabis sales in Québec.

Biological Assets - Fair Value Measurements

As at April 30, 2018, the changes in the carrying value of biological assets are as follow:

	30-Apr-18	31-July-17
	\$	\$
Carrying amount, beginning of period	1,504	121
Production costs capitalized	653	659
Net increase in fair value due to biological transformation less cost to sell	6,460	5,003
Transferred to inventory upon harvest	(6,746)	(4,280)
Carrying amount, end of period	1,872	1,504

Our biological assets consist of cannabis plants from seeds all the way through to mature plants. As at April 30, 2018, the carrying amount of biological assets consisted of \$6 in seeds and \$1,866 in cannabis plants (\$6 in seeds and \$1,498 in cannabis plants as at July 31, 2017). The increase in the carrying amount of biological assets is attributable to an increase in plants on hand. The significant estimates used in determining the fair value of cannabis on plants are as follows:

- yield by plant;
- stage of growth estimated as the percentage of costs incurred as a percentage of total cost as applied to the estimated total fair value per gram (less fulfilment costs) to arrive at an in-process fair value for estimated biological assets which have not yet been harvested;
- percentage of costs incurred for each stage of plant growth; and,
- fair value selling price per gram less cost to complete and cost to sell.

We view our biological assets as Level 3 fair value estimates and estimate the probability of certain harvest rates at various stages of growth. As at April 30, 2018, it is expected that our biological assets will yield approximately 2,052,927 grams (July 31, 2017 – 700,169 grams). Our estimates are, by their nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the fair values of biological assets.

Quarterly Results

The following table presents certain unaudited financial information for each of the eight fiscal quarters up to and including the quarter ended April 30, 2018. The information has been derived from our unaudited consolidated financial statements, which in management's opinion have been prepared on a basis consistent with the condensed

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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interim consolidated financial statements for the three and nine months ended April 30, 2018. Past performance is not a guarantee of future performance and this information is not necessarily indicative of results for any future period.

	Q3'18 30-Apr-18	Q2'18 31-Jan-18	Q1'18 31-Oct-17	Q4'17 31-Jul-17
Revenue	1,240	1,182	1,102	862
Net income (loss)	(1,971)	(8,952)	(1,918)	935
Income (loss) per share – basic	(0.01)	(0.10)	(0.03)	0.02
Income (loss) per share – fully diluted	(0.01)	(0.10)	(0.03)	0.01
	Q3'17 30-Apr-17	Q2'17 31-Jan-17	Q1'17 31-Oct-16	Q4'16 31-Jul-16
Revenue	1,182	914	1,139	1,053
Net income (loss)	(11,808)	(1,114)	(430)	(1,371)
Income (loss) per share – basic	(0.17)	(0.02)	(0.01)	(0.04)
Income (loss) per share – fully diluted	(0.17)	(0.02)	(0.01)	(0.04)

Financial Position

The following table provides a summary of our interim condensed financial position as at April 30, 2018 and July 31, 2017:

	30-Apr-18	31-July-17
Total assets	\$301,649	\$56,179
Total liabilities	9,834	23,739
Share capital	304,474	45,159
Share-based payment reserve	4,458	1,562
Contributed Surplus	-	1,775
Warrants	15,508	3,728
Deficit	(32,625)	(19,785)

Total assets

Total assets increased to \$301,649 as at April 30, 2018 from \$56,179 as at July 31, 2017 primarily due to recent financings, capital asset additions related to facility expansion and an increase in the fair value of biological assets. Since July 31, 2017, we have raised gross proceeds of approximately \$218,500 through two financings. At April 30, 2018, we had a cash balance of \$963 and short-term investments of \$247,987.

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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Total liabilities

Total liabilities decreased to \$9,834 as at April 30, 2018 from \$23,739 as at July 31, 2017, primarily due to the conversion of the unsecured convertible debentures from our July 2017 financing. Total liabilities include a warrant liability of \$3,702 as at April 30, 2018, from \$1,356 as at July 31, 2017, recorded at fair value, related to a private placement completed in the prior year. The increase in the value of the fair value of the warrant liability is the result of changes in the share price and foreign exchange rate in the period, partially offset by the reduction in the number of warrants outstanding.

Share capital

Share capital increased to \$304,474 as at April 30, 2018 from \$45,159 as at July 31, 2017, primarily due to the closing of the January 2018 financing, the conversion of the unsecured convertible debentures from our July 2017 and November 2017 financings, as well as warrant exercises.

Liquidity and Capital Resources

Liquidity

Our objectives when managing our liquidity and capital structure are to maintain sufficient cash to fund operating and organic growth requirements, and to meet contractual obligations. Our ability to reach profitability is dependent on successful implementation of our business strategy. While management is confident in the future success of the business, there can be no assurance that our products will gain adequate market penetration or acceptance or generate sufficient revenue to reach profitability.

As at April 30, 2018, we had \$963 of cash on hand, \$247,987 of short-term investments, \$329 of accounts receivable, and \$6,132 of accounts payable and accrued liabilities. As at July 31, 2017, we had \$38,453 of cash on hand, \$2,872 of short-term investments, \$351 of accounts receivable, \$1,672 of accounts payable and accrued liabilities, and \$25,100 in 8% unsecured convertible debentures.

<i>Liquidity</i>	Nine months ended 30-Apr-18	Nine months ended 30-Apr-17
	\$	\$
Operating activities	(11,412)	(3,384)
Financing activities	244,262	23,618
Investing activities	(270,340)	(2,850)

Operating Activities

Net cash used in operating activities for the nine months ended April 30, 2018 was \$11,412 as a result of the net loss for the nine months ended of \$12,841, and a decrease in working capital of \$5,470, partially offset by non-cash expense of \$6,899. In the same prior year period, cash used in operating activities was \$3,384, reflecting the net loss of \$13,352, net non-cash income of \$9,410, and a decrease in working capital of \$558. The change in cash flow reflects an increase in the unrealized gain on biological assets as the result of a change in estimate, offset by an increase in accounts

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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payable due to the timing of payments as well as higher inventory related to an increase in dried cannabis and oil products, and an increase in the revaluation of financial instruments.

Financing Activities

Net cash received from financing activities for the nine months ended April 30, 2018 was \$244,262, reflecting the issuance of \$149,500 in units from the January 2018 equity financing, \$69,000 from the November 2017 convertible debenture financing, and \$35,765 related to the exercise of warrants.

Investing Activities

For the nine months ended April 30, 2018, we used \$270,340 for investing activities, mainly the acquisition of short term investments. The balance was used in the continuing construction of our new 250,000 sq. ft. greenhouse.

Capital Resources

As at April 30, 2018, total current assets less accounts payable totaled \$259,109. The exercise of all the issued and outstanding warrants, as at April 30, 2018, would result in an increase in cash of approximately \$154,023, and the exercise of all stock options would increase cash by approximately \$15,793.

Management believes that current working capital provides sufficient funds to fund current expansion projects and meet contractual obligations for the next 12 months. We periodically evaluate the opportunity to raise additional funds through the public or private placement of equity capital to strengthen our financial position and to provide sufficient cash reserves for growth and development of the business.

Our authorized share capital is comprised of an unlimited number of common shares. The table below outlines the number of issued and outstanding common shares, warrants and options as at July 31, 2017, April 30, 2018 and June 25, 2018.

	25-June-18	30-Apr-18	31-July-17
Common Shares	193,032,692	179,889,233	76,192,990
Warrants	26,559,656	39,703,115	20,994,123
Options	9,848,396	9,407,396	5,748,169
Total	229,440,744	228,999,744	102,935,282

Off-Balance Sheet Arrangements and Contractual Obligations

We have no off-balance sheet arrangements

We have certain contractual financial obligations related to service agreements and construction contracts for the construction in progress shown in Note 8 of unaudited condensed interim consolidated financial statements and the accompanying notes for the three and nine months ended April 30, 2018.

These contracts have optional renewal terms that we may exercise at our option. The annual minimum payments payable under these contracts over the next five years are as follows:

Fiscal Year	2018	2019	2020	2021	2022	Total
Amount	\$9,201	\$17,504	\$755	\$718	\$664	\$28,842



Financial Risk Management

We are exposed to risks of varying degrees of significance which could affect our ability to achieve our strategic objectives for growth. The main objectives of our risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which we are exposed are described below.

Interest Risk

Our exposure to interest rate risk only relates to any investments of surplus cash. We may invest surplus cash in highly liquid investments with short terms to maturity that would accumulate interest at prevailing rates for such investments. As at April 30, 2018, we had short term investments of \$247,987.

Credit Risk

Credit risk is the risk of financial loss to us if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from our accounts receivable. As at April 30, 2018, we are exposed to credit related losses in the event of non-performance by the counterparties.

We provide credit to our customers in the normal course of business and has established credit evaluation and monitoring processes to mitigate credit risk. Since the majority of the sales are transacted with clients covered under various insurance programs, we have limited credit risk.

The carrying amount of cash and cash equivalents, short term investments and accounts receivable represents the maximum exposure to credit risk and as at April 30, 2018, this amounted to \$249,279. The cash and short term investments are held with well established financial institutions in Canada. Since our inception, no losses have been incurred in relation to cash held by our financial institution. The accounts receivable balance is held with one of the largest medical insurance companies in Canada.

Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they become due. We manage our liquidity risk by reviewing on an ongoing basis our capital requirements. As at April 30, 2018, we had \$248,950 of cash and short term investments.

We are obligated to pay accounts payable and accrued liabilities with a carrying amount and contractual cash flows amounting to \$6,132 due in the next 12 months.

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

Critical Accounting Assumptions

Our financial statements are prepared in accordance with IFRS. Management makes estimates and assumptions and uses judgment in applying these accounting policies and reporting the amounts of assets and liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. Significant estimates in the accompanying financial statements relate to the valuation of biological assets, stock-based compensation, warrants and hybrid



instruments, the estimated useful lives of property, plant and equipment. Actual results could differ from these estimates. Our critical accounting assumptions are presented in our Annual MD&A for the year ended July 31, 2017 (Fiscal 2017), which is available under our profile on SEDAR.

Changes in Accounting Policies

New and revised IFRS in issue, but not yet effective

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued by the International Accounting Standards Board ("IASB") in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held-for-trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued by the IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. On April 12, 2016, the IASB published final clarifications to IFRS 15 with respect to identifying performance obligations, principal versus agent considerations, and licensing. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 Leases

IFRS 16 was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted.

We are assessing the impact of these new or revised IFRS standards in issue but not yet effective on our financial position and financial performance.



Related Party Transactions

Key management personnel compensation

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling our operations, directly or indirectly. Our key management personnel are the members of the executive management team and Board of Directors, who collectively control approximately 9.44% of the outstanding common shares as at April 30, 2018 (July 31, 2017 – 25.11%).

Compensation provided to key management for the three and nine months ended April 30, 2018 and April 30, 2017 was as follows:

	<i>For the three months ended</i>		<i>For the nine months ended</i>	
	<i>30-Apr-18</i>	<i>30-Apr-17</i>	<i>30-Apr-18</i>	<i>30-Apr-17</i>
	\$	\$	\$	\$
Salary and or consulting fees	645	254	1,505	832
Stock-based compensation	555	43	2,564	281
Total	1,200	297	4,069	1,113

On April 16, 2018, the Company granted certain executives of the Company a total of 845,000 stock options with an exercise price of \$4.27, in which one-third will vest one year after the grant date with the remaining balance vesting quarterly over the final two years.

On March 12, 2018, the Company granted certain executives of the Company a total of 325,000 stock options with an exercise price of \$3.89, of which one-third will vest on the one-year anniversary of the date of grant and the balance will vest quarterly over two years thereafter

On December 4, 2017, we granted certain directors and executives a total of 1,750,000 stock options with an exercise price of \$2.69, half of which vested immediately and the balance over a three-year period.

On September 8, 2017, we granted certain of our executives a total of 650,000 stock options with an exercise price of \$1.37, which vest over a three-year period.

We leased a building to a related party for \$0.7 per month as part of a usufruct agreement. The related party used this property as a personal residence. On December 2, 2016, we reached an agreement with the related party to terminate the usufruct. In exchange, we paid the related party \$46. Gaining access to this building provides us with additional office space and thereby reduces the need to rent or build additional offices in the short term.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed by the related parties.

Risk Factors

Our overall performance and results of operations are subject to various risks and uncertainties which could cause actual performance, results and achievements to differ materially from those expressed or implied by forward-looking statements and forward-looking information, including without limitation, the following factors, which are discussed in our Annual Information Form dated November 8, 2017 and in our final short form prospectus dated January 22,

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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2018 filed with securities regulators and available under our profile on www.sedar.com, which risk factors are incorporated by reference into this document, and should be reviewed in detail by all readers:

- We operate in a dynamic, rapidly changing environment that involves risks and uncertainties, and as a result, management expectations may not be realized for a number of reasons. An investment in our securities is speculative and involves a high degree of risk and uncertainty.
- We face intense competition from licensed producers and other companies, some of which may have greater financial resources, and more industry, manufacturing and marketing experience than we do.
- The number of licences granted, and the number of licensed producers ultimately authorized by Health Canada could have an impact on our operations. We expect to face additional competition from new market entrants that are granted licences under the ACMPR or existing licence holders which are not yet active in the industry.
- We maintain various types of insurance which may include errors and omissions insurance; directors' and officers' insurance; property coverage; and, general commercial insurance. A judgment against any member of the Company in excess of available coverage could have a material adverse effect on us in terms of damages awarded and the impact on our reputation.
- Reliance on management and key persons' ability to execute on strategy. This exposes us to management's ability to perform, and as well the risk of management leaving the Company.
- Given the nature of our business, we may from time to time be subject to claims or complaints from investors or others in the normal course of business.
- Failure to adhere to laws and regulations may result in possible sanctions including the revocation or imposition of conditions on licenses to operate our business; the suspension or expulsion from a particular market or jurisdiction or of our key personnel; and, the imposition of fines and censures.
- Achievement of our business objectives is contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals, where necessary, for the production and sale of our products. We cannot predict the time required to secure all appropriate regulatory approvals for our products, or the extent of testing and documentation that may be required by governmental authorities.
- While to the knowledge of our management, it is currently in compliance with all laws, regulations and guidelines relating to the marketing, acquisition, manufacture, management, transportation, storage, sale and disposal of medical marijuana and also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment, changes to such laws, regulations and guidelines due to matters beyond our control may cause adverse effects to our operations.
- Our business operations are dependent on our licence under the ACMPR. The licence must be renewed by Health Canada. Our current licence expires on October 15, 2019. Failure to comply with the requirements of the licence or any failure to renew the licence would have a material adverse impact on our business, financial condition and operating results.
- Our activities and resources are currently primarily focused on our Gatineau campus, and we will continue to be focused on this facility for the foreseeable future. Adverse changes or developments affecting the Gatineau campus would have a material and adverse effect on our business, financial condition and prospects.

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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- We have incurred operating losses since commencing operations, and may incur losses in the future and may not achieve profitability.
 - Our growth strategy contemplates outfitting the Gatineau campus with additional production resources. There is a risk that these additional resources will not be completed on time, on budget, or at all.
 - A key aspect of our business is growing marijuana, and as such we are exposed to the risks inherent in any agriculture business, such as disease spread, hazards, pests and similar agricultural risks that may create crop failures and supply interruptions for our customers.
 - Our medical marijuana growing operations consume considerable energy, making us vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact our business and our ability to operate profitably.
 - We believe the medical marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical marijuana produced. Consumer perception of our products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical marijuana products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical marijuana market or any particular product, or consistent with earlier publicity.
 - As a manufacturer and distributor of products designed to be ingested or inhaled by humans, we face an inherent risk of exposure to product liability claims, regulatory action and litigation if our products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of our products involve the risk of injury or loss to consumers due to tampering by unauthorized third parties, product contamination, unauthorized use by consumers or other third parties.
 - Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure.
 - Our business is dependent on a number of key inputs and their related costs including raw materials and supplies related to our growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact our business, financial condition and operating results.
 - We must rely largely on our own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical marijuana industry in Canada.
 - We may be subject to growth-related risks including capacity constraints and pressure on our internal systems and controls. Our ability to manage growth effectively will require it to continue to implement and improve our operational and financial systems and to expand, train and manage our employee base.
 - We may become party to litigation from time to time in the ordinary course of business which could adversely affect our business.
 - We have no earnings or dividend record and may not pay any dividends on our common shares in the foreseeable future.
 - Our common shares are listed on the TSX; however, there can be no assurance that an active and liquid market for the common shares will be maintained, and an investor may find it difficult to resell such shares.

Management Discussion & Analysis

For the three- and nine-month periods ended April 30, 2018

(In thousands of Canadian dollars, except share and per share amounts, and where otherwise noted)



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- The market price for our common shares may be volatile and subject to wide fluctuations in response to numerous factors, including governmental and regulatory regimes, community support for the medical marijuana industry, variations in our operating results, changes in our business prospects, as well as many other factors that are beyond.
 - We may issue additional common shares in the future, which may dilute a shareholder's holdings in the Company.
 - Our TSX's listing conditions required us to deliver an undertaking confirming that, while listed on the TSX's, we will only conduct the business of production, acquisition, sale and distribution of medical marijuana in Canada as permitted under the Health Canada license.
 - Our operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. We will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations.
 - The development of our business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada.
 - We are exposed to the risk that our employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data.